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Australia

Grain and Feed

November Quarterly Grain Lockup 2008

Approved by:

Grant Pettrie, Agricultural Counselor
U.S. Embassy

Prepared by:

Mike Darby, Agricultural Specialist

Report Highlights:

Harvest of the 2008/09 Australian winter cereal crop has begun with small quantities of grain having been received prior to the submission of this report. At time of writing, much of southeastern Australia has returned to drought conditions. Total wheat production for 2008/09 is forecast at 20.15 MMT, down on the 21.6 MMT previously forecast by Post. In revising production downwards, Post has cut area by 500,000 hectares and has also trimmed yield. Total barley production for 2008/09 is forecast at 7.013 MMT, down sharply on Post's previous forecast of 7.875 MMT. There remains significant scope for further reductions in forecast production for both wheat and barley.

Includes PSD Changes: No
Includes Trade Matrix: No
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Harvest of the 2008/09 Australian winter cereal crop has begun with small quantities of grain having been received prior to the submission of this report. The harvest, which is yet to begin in earnest, is expected to run from now until December and begin with barley, before moving onto wheat.

At time of writing this report, much of southeastern Australia has returned to drought conditions. Despite very low or no rainfall for the month of August, many winter cereal producers in these regions had hoped for at least average or above average rainfall during the crucial period of late September and early October. This did not occur however and the winter cereal producing regions in Western Victoria and Southern NSW are expecting a very poor harvest with many crops cut for hay or abandoned altogether. Post believes the conditions faced in these areas are so severe that they will significantly constrain Australia's overall production of wheat and barley and thus have provided the basis for the downward revision in both area and yield.

A recent field trip to these areas has revealed that this long-term drought, which began in 2002/03, is now beginning to cause structural decline in the rural sector which remains of crucial importance to these areas. Much of the infrastructure which has, in the past, provided opportunities for irrigated crop production (from above average water allocations) has fallen into disuse with little scope for use in the foreseeable future.

Northern NSW and southern and central Queensland are expecting a very good harvest and some analysts believe that Queensland could be facing an all time record winter cereal harvest. Excellent rainfall throughout the season has ensured a bumper harvest for these regions.

Current forecasts for the states of Western Australian and South Australia vary widely and have proved challenging in providing a final production forecast. However, Post believes that these states will also produce a good enough crop to provide a "floor" in Australian winter cereal production. Despite a difficult planting period and periods of dryness, rainfall events during the crucial spring period are expected to result in a reasonable harvest in these two states.

Recent international economic upheaval has been the primary focus of local media within Australia with many analysts concerned as to whether the credit requirements of agricultural commodity buyers can adequately be satisfied. However, a shortage of credit for commodity buyers in Australia has not materialized as to date.

Recent investigations have revealed the local production credit conditions for Australian growers (in the context of ongoing drought) remain of greatest importance, at least for the foreseeable future. Many growers believe that without widespread rainfall prior to planting next year's (2009/10) crop, credit required to "dry sow" crops may be constrained. On the positive side, growers believe that falling oil, fertilizer and the weaker Australian currency will likely provide some economic relief going forward.

Wheat

Total wheat production for 2008/09 is forecast at 20.15 MMT, down on the 21.6 MMT previously forecast by Post. While still representing a sharp increase over last year's drought ravaged crop, this level of production, if achieved, would only just surpass the ten-year average of 19.98 MMT established using ABARE's historical data.

In revising production downwards, Post has cut area by 500,000 hectares and has also trimmed yield. Severe drought in southeastern Australia has seen many wheat crops

harvested for hay or abandoned entirely and that these areas account for the majority of the forecast cut. The significant abandonment of poorer crops and the related fall in area has constrained fall in yield somewhat.

There remains significant scope for further reductions in forecast production. Further decreases in area and yield in drought-affected regions and to what extent the more fortunate regions in other states can offset these declines through potential increases in yields remains to be seen.

Wheat Production Potential (TMT)					
Area (000 Ha)					
Yield (MT)		12,750	13,000	13,250	13,500
	1.45	18,488	18,850	19,213	19,575
	1.5	19,125	19,500	19,875	20,250
	1.55	19,763	20,150	20,538	20,925
	1.6	31,620	20,800	21,200	21,600

Barley

Total barley production for 2008/09 is forecast at 7.013 MMT, down sharply on Post's previous forecast of 7.875 MMT. Reductions in both area and yield have dragged this forecast down and closer to the ten-year-average for Australian barley production.

The continuation of severe drought conditions in the key producing regions of western Victoria and southwestern NSW account for the majority of this forecast reduction. Post advises that despite the ferocity of the drought in these areas, many low yielding crops may still be harvested for grain due to the short season nature of the crop.

Post's forecast relies on the key barley producing states of South Australia and Western Australia to constrain further declines in forecast total production. Some scope remains for further declines depending on final yield and area which will be determined at the conclusion the harvest period.

Barley Production Potential (TMT)				
Yield (MT)	Area (000 Ha)			
		4,000	4,250	4,500
	1.55	6,200	6,588	6,975
	1.65	6,600	7,013	7,425
	1.70	6,800	7,225	7,650
	1.75	7,000	7,438	7,875

Sorghum

Total sorghum production for 2009/10 is forecast at 1.8 MMT, down on the 2.0 MMT previously forecast by post. This downward revision for sorghum production is primarily driven by the expected shift towards increased cotton production. Cotton, which is sensitive to exchange rate fluctuations, is believed to have benefited from the recent sharp devaluation of the Australian dollar and its positive impact on relative cotton prices.

Sorghum planting has already commenced in some key growing regions, however the traditionally long planting window for sorghum means that planting will occur (as rainfall allows) from October until February. Weather events and further currency fluctuations are

expected to have a large impact on final area planted to sorghum between now and February.

Domestic demand for sorghum is expected to remain strong, although the recent decline in grain prices more generally will likely see harvest prices fall significantly from recent record high levels.

Rice

Total rice production for 2009/10 is forecast at 60,000 MT, up significantly on the 13,000 MT harvested the previous year. Despite this increase, the forecast remains well below the ten-year-average of 784,000 MT established using ABARE's historical data.

Current forecasts for Australian rice production in 2009/10 range between 44,000 MT and 70,000 MT. Industry sources believe that the current levels of irrigation water reserves will likely allow for production to range between 50,000 MT and 60,000 MT and that more water will need to be allocated before production can surpass these levels. Post's forecast allows for a slight increase in water usage for rice production going forward.

Recent investigation by post has revealed that despite record low production, vertical integration and other competitive advantages held by the Australian rice industry are likely to allow for continued rice production within Australia, despite the acute shortage of water and the inherent high water usage associated with rice production. Industry sources believe that sustainable "post-drought" production of Australian rice remains between 300,000 and 500,000 MT and can be achieved over the long term.

In an effort to maintain international competitiveness and insure itself against local production shortfalls, SunRice (Ricegrowers Limited) has invested in a newly formed joint milling and marketing venture in California.